CHURCH'S FRIED CHICKEN

BACKGROUND

Church's Fried Chicken, Inc., the oldest (beating the Colonel by 2 months) and second largest fried chicken operation in the United States, is rapidly frying its way to the top.

Twice heading Financial World's survey of America's top growth companies and regularly chosen as one of the southwest's five best managed companies in Financial Trends' Top Ten Survey, their corporate sales are expected to reach $392 million for 1981.

Spearheading Church's Fried Chicken's move into Ontario is a privately-held, federally chartered company created for this purpose -- Medokrisp Food Systems Limited.

Created by a number of Canada's leading institutional investors, Medokrisp was formed in 1980 to acquire the rights to develop the franchise and immediately began recruiting Canadian experts to manage the operation.

Heading the company's growth is Terrence D. Montford, a food industry veteran with extensive experience with Canterbury Foods, McCain's and Pillsbury.

"Medokrisp had 4 outlets in operation by the end of 1981 and its strategic plans calls for the opening of over 100 outlets over the next five to seven years," Montford said.

"For the first 18 months we will be concentrating on the Metro Toronto area and will then begin looking at other sites in the province," he added.

Another Canadian corporation holds the rights for British Columbia and Alberta and is now operating eight centers in B.C. and three in Alberta.

"We contemplate no deviation from the Church's formula which has proven itself for many years in the United States," Montford said.

"All the basic ingredients -- menu, quality control, staff training, site location -- will all be patterned on the Church's model in the early stages. If we find Canadian consumers have some very different needs or tastes, then we will consider modifying the overall program," he added.

The basic menu is crisp and juicy chicken, french fries, creamy coleslaw, jalepeno (pronounced halapinyo) peppers, corn-on-the-cob, desserts and beverages.

"The biggest benefit we see from the alliance with Church's is their established programs of staff training and quality control which leads to tremendous operational efficiency," Montford said.

He pointed out that the average transaction time in a Church's outlet is approximately 60 seconds from the time a consumer steps up to the counter until he picks up his change.

"That kind of efficiency is only possible when every single detail of the operation is carefully planned in advance and then executed flawlessly by every person in the organization," he said.

"Everyone has heard of Hamburger U's where people go to learn the intricacies of preparing hamburgers. Well, Church's maintains four training centres you might call Chicken U's where people are trained and drilled in Church's techniques for two weeks after they have served six weeks in on-the-job training," he said.

Medokrisp now is sending its Canadian staff to Church's training facility in Chicago until the operation reaches a size where a local operation is justified.

Montford said the company's purchasing strategy is also patterned on the successful Church's policy of dealing only with high quality suppliers.

"We have even taken the initiative in auditing the plant and production facilities of our supplier like Pinecrest, McCain's and Kraft to make sure our standards can be achieved," Montford said.

Medokrisp Food Systems Limited will also be using extensive consumer research to identify Canadian consumer demands.

"It will be interesting to see how consumer demands in Canada compare with those below the border. I'm betting personally that we're going to find more demand for seating than the 20 or 25 seats a typical Church's outlet now provides," he said.

"We certainly don't want to tinker with a successful formula but we'll have to be ready to adapt to unique Canadian circumstances," Montford concluded.

Medokrisp maintains strong control over each of its restaurants by producing a computer-generated variance analysis to measure standard operational items such as labor, food costs and supplies against their rigid standards.

Church's is people-oriented and places great emphasis on training and motivational programs and incentive compensation. Every executive, from the president down, has worked as a team member to help them relate to in-store technicalities.

As part of Church's Master Merchant Program, which offers employees the opportunity to advance to the highest level of their capability, all senior executives joining the company must also go through the in-store manager candidate training program and pass both oral and written examinations.

CFC's chicken, with its closely guarded marinating formula, is cut up into 8 portions as opposed to KFC's 9; cooked in full view of the customer and never spends more than 45 minutes under the warming lights.

By the end of 1981, Church's had 1,400 units employing more than 12,000 people throughout the U.S., Canada, Mexico, Puerto Rico, Japan and Singapore.

Church's attributes its success to building small no-frills stores at modest cost; serving quality freshly cooked products and their efficient use of capital and employees.

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FOR FURTHER INFORMATION
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(416) 363-9453

Church's Fried Chicken, Inc.

Annual Report
1980

Church's Fried Chicken, Inc.

THE COMPANY:

The company sells fried chicken and complementary food items such as french fried potatoes, coleslaw, corn-on-the-cob, peppers, pies and soft drinks through neighborhood take-out stores.

Church's Fried Chicken's stores are specially designed and engineered to stress productivity. The stores generally are located on lots of approximately 15,000 square feet. Parking, inside seating and drive-thru facilities are provided.

At the end of 1980 there were 966 company-operated chicken stores located in 24 states. The company also operates 35 specialty hamburger shops under the name of "G.W. Jr.'s", all in Texas.

At year end there were 259 stores operated by licensees in 31 states, Canada, the District of Columbia, Mexico, Puerto Rico and Japan.

There were 14 states in which both the company and licensees operated stores.

Company-operated stores include 14 chicken stores operated by Dining of California, Inc., in which the company owned a 51% interest during 1980. Subsequently the company exercised its option to purchase the remaining 49%.

The company, headquartered in San Antonio, employed approximately 13,000 persons at the end of 1980.

Contents:

Annual Meeting of Shareholders:

The annual meeting of shareholders will be held on Friday, April 10, 1981 at 10:00 a.m. The location will be the Commanders' Room of the Frost National Bank located at 100 West Houston Street, San Antonio, Texas.

Our Stores:

Our company places a great deal of emphasis on our stores. The store supplies the means for providing superior products to our customers. The store is the focal point for national headquarters involvement. The fundamental question is always, "Will it sell chicken?" From the original strategy of systematic and scientific site location to service of customers, close controls are maintained. This annual report is designed to explain in part the support role to the stores.

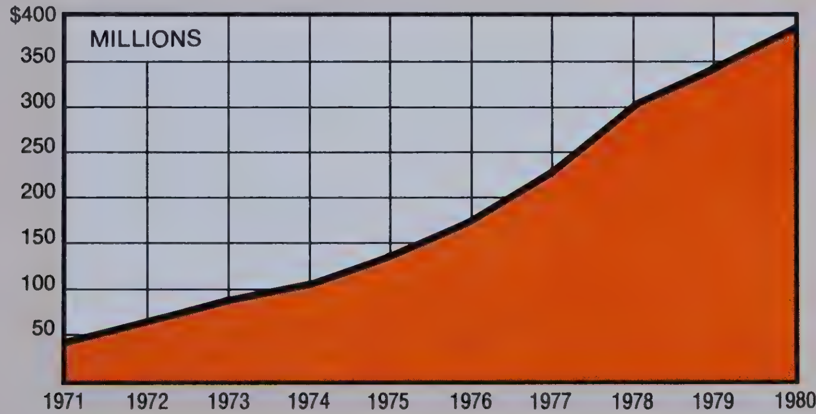
Financial Highlights

A Comparison of Important Indicators

	1980	1979	1978
System-Wide Sales	$466,121,000	$408,284,000	$345,000,000
Company Revenues	$391,782,000	$348,424,000	$301,536,000
Net Earnings	$ 38,096,000	$ 36,234,000	$ 28,042,000
Earnings per Share	$ 3.01	$ 2.87	$ 2.22
Return on Average Equity	26.8%	32.2%	32.7%
Return on Average Total Assets	19.9%	22.4%	22.2%
Equity as a Percent of Total Assets	77.2%	71.2%	67.2%
Company-Operated Stores	1001	910	791
Licensed Stores	259	215	179
Employees	13,000	12,100	10,700

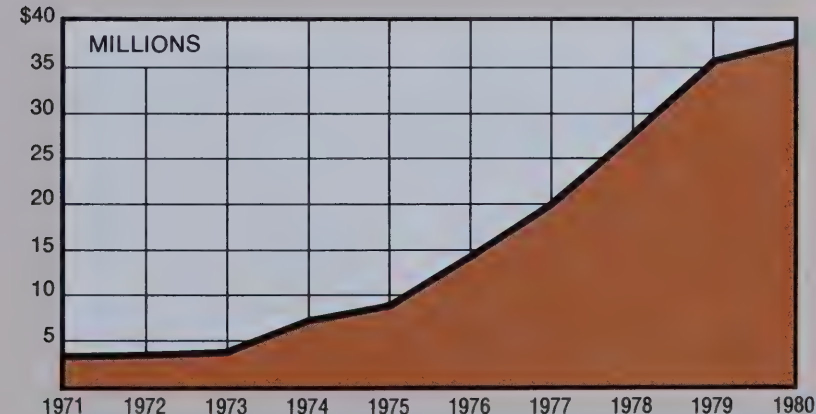
Total Revenues

1980 $391.8 Million
1979 $348.4 Million
1978 $301.5 Million



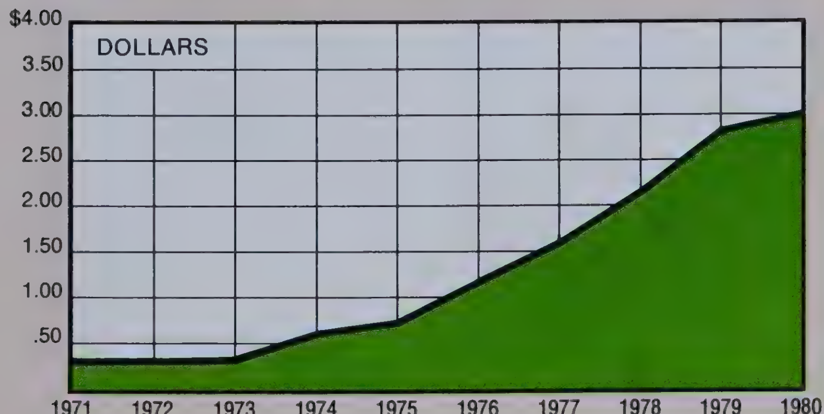
Net Earnings

1980 $38.1 Million
1979 $36.2 Million
1978 $28.0 Million



Earnings Per Share

1980 $3.01
1979 $2.87
1978 $2.22



To Our Shareholders:

1980

In December of 1980 Church's Fried Chicken, Inc. passed a significant milestone when the 1000th company-operated store was opened, bringing total system-wide stores to 1260 at year end. The nation's generally poor economic conditions did not affect our store openings, since we were again able to finance our needs with internally generated funds. The factors of regionally soft retail sales (mainly in our Midwest Division), continued inflation, and high chicken costs did, however, have some effect upon operating results. This was primarily true in the third quarter. However, menu price increases were instituted with the result that our fourth quarter earnings per share were up 7.8% over 1979, $1.10 vs. $1.02. For the entire year earnings per share were $3.01 compared to last year's $2.87, an increase of 4.9%.

Total system sales of $466.1 million is the sum of the company store sales of $383.8 million plus the licensee store sales of $82.3 million. This is 14.2% higher than 1979's $408.3 million. Total company revenues increased to $391.8 million from 1979's $348.4 million, a gain of 12.5%. Earnings before income taxes showed an increase to $64.7 million from $64.4 million. The primary causes of this minimal increase were unusually high chicken prices during the second half of the year and higher energy costs. Yet, we were able to achieve a gain in net earnings to $38.1 million from 1979's $36.2 million, an increase of 5.2%, with the use of available tax credit programs.

An important financial event in the company's history occurred during November when our total assets passed the $200 million mark. Shareholders' equity is now in excess of $157 million compared to $127 million at the end of 1979.

Our financial statements continue to show unusual strength as indicated by the following ratios:

	1980
Current Assets to Current Liabilities	1.44 to 1.0
Shareholders' Equity as Percent of Total Assets	77.2%
Return on Average Equity	26.8%
Return on Average Total Assets	19.9%

Our 1980 store building program ended ahead of our original schedule. We expected to open 93 company stores; we opened 97. Our licensees planned to open 60 to 70 stores compared to 1979's 54 stores. They opened 64. The summary of store activity follows:

	Company		
	Chicken	G.W. Jr.'s	Licensees
Begin 12/31/79	863	34	228
Opened	96	1	64
Closed	(1)	0	(25)
Transferred to Store Manager Ownership	(6)	0	6
End 12/28/80	952	35	273
Purchase of Dining of California Interest 1/26/81	14	0	(14)
Balance	966	35	259

During 1980 the company closed only one store, which was located in Pekin, Illinois. This was an older store and the ground lease had expired. The sales volume did not warrant renewal.

The licensees closed 25 stores. The reasons given us include high interest rates, local unemployment affecting sales, increased costs of rent and energy, and absentee ownership.

At the end of the fiscal year there were 273 licensee stores, of which 14 were owned by Dining of California, Inc., in which we had a 51% interest. On January 26, 1981 the company exercised its option for the remaining 49% to make Dining of California a wholly-owned subsidiary. The total number of company and licensee stores at December 28, 1980 was 1260.

The capital expenditures for property, plant and equipment for 1980 totaled approximately $35.0 million. The 1981 capital expenditures are estimated to be $38.0 million. The main reason for this increase is the purchase and incorporation into the Church's system of our point-of-sale terminals.

In April 1980 the regular quarterly dividend was raised from 15¢ to 18¢ per share. The Board of Directors will again review the dividend rate in April of this year.

Significant events which occurred during 1980 include:

. . . George W. Church, Jr. resigned as a director of the company and all officer positions to take early retirement. He continues his services as a consultant.

. . . The anticipated purchase of 81 stores in the Houston area from Host International was not consummated because a definitive contract could not be agreed upon.

. . . Our legal position has improved with respect to the Host International litigation. A Texas appeals court held that the Houston-Galveston franchise will expire in 1986, instead of being of indefinite duration as contended by Host. The Texas Supreme Court has refused to hear the case, finding no reversible error.

. . . On March 24th, we announced the formation of a 50-50 joint venture with Agency Records Control, Inc., a subsidiary of Kaneb Services, Inc., to manufacture and market computer terminals. The joint venture has been named Transaction Control Industries. The new plant in Bryan, Texas has delivered the first units to our stores for testing of hardware, software and transmission. After a 60 to 90 day test period additional units are to be installed over a 12 to 18-month period. The venture is negotiating with a company in Europe for the sale of approximately 250 terminals.

. . . In mid-December we sold our modular building plant in Sacramento, California, in order to concentrate modular building production in San Antonio. This should result in more efficient, less costly output. The facility was sold at a profit.

. . . A number of significant management promotions were made during the year. The individuals and the titles are:

Samuel B. Alford
Vice President
Corporate Services

Adrian E. Budlong, Jr.
Group Vice President
Licensing and Marketing

Dorian W. Gibbs
Vice President
Corporate Planning

Robert P. Gottlich
Senior Vice President
Division Manager

Roger A. Harvin
Chairman of the Board
and Chief Executive Officer

Robert E. Hilgenfeld
Group Vice President
Purchasing

Larry M. Killpack
Group Vice President
Development

Sandra G. Paine
Group Vice President
Personnel and Training

James S. Parker
Executive Vice President
Operations

. . . An attempt was made by a union to organize 13 stores in the Oakland, California area. Two elections were held; both times the employees voted to remain non-union.

. . . Church's was recognized by Restaurant Hospitality Magazine with a "1980 Top Ten Restaurant Award".

With 1980 now history, the management team has set a number of goals for 1981. These are:

1. We plan to open 80 to 85 company stores.
2. We plan to assist licensees in opening 60 to 70 stores.
3. Increased emphasis will be placed on using modular buildings.
4. The Management Action and Transactional Terminals are to be installed in up to 40 percent of our stores.
5. Continued emphasis will be placed on reducing turnover of store personnel through better and more extensive training.
6. Menu prices will be reviewed periodically to reflect competition and our costs.

In spite of anticipated economic difficulties, we expect 1981 to be yet another record year.

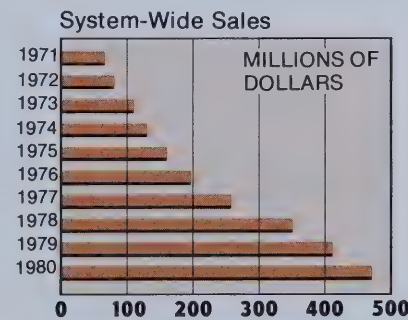
Finally, I wish to thank the Board of Directors for its confidence in electing me to the position of Chairman of the Board and Chief Executive Officer. My intention is to follow the basic programs established by George W. Church, Jr. His new role as consultant to our company permits a continuity of ideas and direction which is much appreciated.

Sincerely,

Roger A. Harvin

ROGER A. HARVIN
Chairman of the Board

February 10, 1981



OPERATIONS

The National Operations Department provides overall coordination for store operations. The overriding strategy is the emphasis on superior quality products, fast and friendly service, and clean, pleasant, attractive, well-maintained stores. Successful performance depends upon trained, competent store employees.

Executives in the field and at headquarters reflect a strong commitment to this philosophy. The commitment is demonstrated by the amount of actual time operations executives spend inside individual chicken stores.

The operations management team has been strengthened by the promotion of Mr. James S. (Buddy) Parker from Vice President, Division Manager at Division I to Executive Vice President-Operations. His performance at the division level was exceptional and he will now be responsible for direct supervision of the division managers.

The limited menu approach has helped hold down prices in spite of increased commodity costs. The limited menu concept, with specially designed buildings and equipment, provides operation advantages such as faster employee training and higher productivity.

Controls for each store have been improved by the refinement of the computer-generated variance analysis report produced each four-week period. The analysis measures performance against standards for various operational items such as labor, food costs and supplies.

REAL ESTATE

It is company philosophy to purchase real estate in preference to leasing. The role of our Real Estate Department is to locate, evaluate, negotiate and purchase property needed for our chicken and hamburger stores. As an indicator of its effectiveness, it should be noted that for the last three years, the company's average cost of land has increased less than the general inflation rate for real estate.

The general procedure for real estate acquisition is to determine the number of sites; target the geographic area to be surveyed; locate the site which best meets the site selection criteria; prepare a site selection package consisting of traffic maps, demographic data, competition and other pertinent information; and present it to the Site Selection Committee, which evaluates the projected sales and return-on-investment.

Sites are generally acquired 8 to 12 months ahead of the scheduled store opening. This procedure, coupled with our modular building program, permits maximum flexibility in real estate operations. We have already accumulated over 70% of our 1981 sites.

With the availability of the 1980 census data, the Real Estate Department is reevaluating our site selection model. It is apparent that changes in demographics will influence the location of future stores.

The Real Estate Department also works with licensees in the preparation and submission of site packages. The same standards apply for both licensee and company stores.

PERSONNEL

One of the most helpful national departments is Personnel. This department provides continuous support to the store and field operations in the areas of hiring, evaluation, training, fringe benefits, incentive programs, pay plans, government regulations, insurance and the stock purchase plan. It keeps store management informed of changes in laws and company policy, provides educational seminars to aid store management in developing management skills and provides training programs.

By aiding store management in being more effective as supervisors, National Personnel hopes to provide a workplace in which team members can learn skills, grow in experience and work in a supportive environment.

The personnel function is one of the more decentralized within the company. Each division has a personnel staff which handles day-to-day activities. This permits an awareness of local store needs. The National Personnel Department sets policy and provides overall coordination.

During 1980 the department undertook two major projects. The first was a detailed analysis of turnover and the development of ideas for improving the retention rate. As a result, one division manager reduced his turnover among store management personnel by as much as 43%. Overall store turnover has been reduced by approximately 10%.

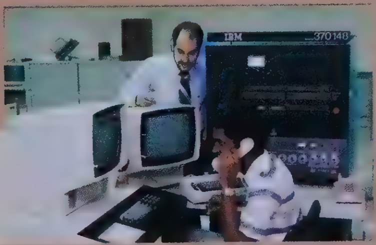
The second major undertaking was development of a training program to be used in conjunction with the installation of the Management Action and Transactional Terminals. As in other decentralized functions, National Training will provide leadership

Our Stores — the focal point

Personnel & Training

Management

Operations



Finance & Audit

Real Estate

Engineering & Manufacturing

Modular Buildings

Purchasing

The primary objective of all National Departments is to support the operation of our stores — this is the focal point of all our activities.

and information to divisions which are ultimately responsible for performance. Training aids were developed for the division, the area and the store. The training for Division I personnel has already been completed, this being the first division to receive the new terminals.

STEP 13 PROGRAM

The Step 13 program provides opportunities for outstanding store managers to go beyond our normal career management program. Step 13 is a program whereby a manager can attain the goal of actual ownership of a Church's Fried Chicken store. This is achieved by maintaining the highest standards of excellence over a four year period and accumulating the funds to allow purchase of a store. In 1980 six new Step 13 owners took over company stores and became part of the licensee team. At the end of 1980 there were 21 Step 13 licensees.

We expect that in 1981 there will be an additional seven individuals who will qualify for this important step in their career development. The company presently has 88 participants in this program.

FINANCE AND EDP

The finance and EDP groups provide the financial and operational data for evaluation and control of the field organizations down to the store level. Financial statements, period reports and variance reports provide the necessary data and information. Accurate, reliable and timely information is a company fundamental. Service functions such as payroll processing, fixed asset accounting, inventory recording and accounts payable payments are provided to allow the field personnel to "sell chicken".

The group achievements during 1980 include:

1. Strengthening of the accounting and data processing staffs.
2. Improvements in the payroll processing procedures.
3. Development of programs and procedures for utilizing the new MAT and TAT terminals.
4. Development of a distributive data processing plan utilizing the IBM System 34 for linking the Divisions to the National computer.
5. Completion of the analysis of data processing facilities. The result was the ordering of a new IBM 4341 computer to replace the present IBM 370/148. Delivery is expected in March of 1981.
6. Monitoring the Targeted Jobs Tax Credit program, thereby providing field management with information necessary to qualify participants.
7. Improvement in a variance report used to evaluate store-by-store performance.
8. Implementation of construction cost reports used by the Divisions to control the costs of building.

INTERNAL AUDIT

One of the most important functions of the nine-person Internal Audit staff is to support the stores and field management by auditing individual stores. A typical audit would cover financial matters, cash count, inventory count, product quality, customer service, equipment maintenance, store cleanliness, safety and security. The audit team prepares a written report which is reviewed on-site by the store manager and a member of the field management staff. In most cases immediate action is taken to correct any deficiencies. A formal written report is prepared for distribution to upper management in order to monitor conditions at the stores and to assure a high level of quality operations. Internal auditors, working with store and field management, develop cost reducing opportunities which are processed through various levels of management for incorporation into standard practices and procedures.

During 1980, 770 stores were audited compared with 614 in 1979.

While their primary objective is to work with stores, the Internal Audit Department also plays a key role in auditing corporate departments and Division functions. Included are such items as auditing of cash, inventory, fixed assets, pay practices, and numerous administrative procedures.

LICENSING

The primary functions of our Licensing Department are to locate new licensees and process their applications to operate Church's Fried Chicken stores, and to aid and assist our present licensees through our district field consultants.

The goal is to locate qualified individuals who will concentrate efforts in their community in order to better manage the business.

In 1980 the company continued to emphasize attracting licensees for smaller geographical territories. During the year, 11 such licensees joined the Church's team.

(Cont. page 12)






National Headquarters
San Antonio, Texas

Although all of the efforts of the various departments and divisions of Church's Fried Chicken, Inc. are centered around what happens in the individual store, the nucleus of the company is our National Headquarters in San Antonio.

In a time when many national corporations have joined the rush to move their headquarters to the Sunbelt, we are happy that the operation of our company is centered here in one of America's unique cities.

The many advantages of climate, culture, resources and beauty have helped San Antonio to grow quietly, without fanfare, to its position as the tenth largest city in the United States.




MANUFACTURING

The Manufacturing Department is responsible for manufacturing substantially all of the specially designed stainless steel equipment required for the company stores as well as the licensee program. On-time delivery is important, since it assures that store openings will not be delayed. The company-owned facility also permits continuing research and development.

In the past eighteen months the manufacturing group developed two new kitchen layouts, one for the chicken stores and one for the G.W. Jr.'s. In addition, a new corn display ferris wheel was developed and manufactured. These units are being installed in the company chicken stores.

In the area of cost reduction the increased manufacturing activities have permitted the purchase of steel in mill lot quantities which results in certain price advantages.

Engineering improvements in the manufacture of countertops, chicken pan shelving, ice bin liners, swinging doors and fabrication methods will result in additional savings. The concepts of work simplification, methods analysis, and value engineering are used on virtually all projects.

Plant machinery and equipment continue to undergo improvement. The result has been that store equipment packages now cost between $52,000 and $57,000. This is approximately 20% less than if they were manufactured by an outside firm.

A number of programs have been undertaken by Manufacturing. They are:

1. An IBM System 34 computer was added. Utilization has allowed Manufacturing to maintain minimum inventories.
2. The department is manufacturing equipment for the modular buildings.
3. Two maintenance seminars were conducted for senior Division engineering personnel.
4. A night shift was introduced to better utilize the plant.
5. An energy engineer was added to the staff to undertake research activities resulting in a reduction of energy consumption at the stores.

During 1981 the department expects to continue its present activities designed to support the stores and the field organization. Utilizing the in-house computer, more accurate and stronger controls will be developed, especially in the inventory and production control sectors. With a capacity of 200 store equipment packages per year and the ability to operate additional hours, the Manufacturing Department can easily meet foreseeable company requirements.

MODULAR BUILDINGS

1980 was a very active year for our modular building program. One of the most significant events was construction of a modular store in Austin, Texas in six days. The photos on the opposite page show the sequence of events in the construction of this store. Construction crews worked 24 hours a day and prepared the site in 30 hours instead of the normal three weeks. The building arrived in sections and was set in less than three hours. The construction schedule was developed using a P.E.R.T. chart. Lessons learned by applying new construction techniques will be of value during the coming years for the increased activity anticipated in our modular building program.

The modular building is engineered to meet the requirements of our store operations. Every foot of space is used to provide a most efficient and cost effective unit. Storage space is kept to a minimum to prevent overstocking and to assure a constant supply of fresh product.

The building can be built almost anywhere in the country with a minimum of ground space and manufacturing facilities. It is designed to permit fabrication of components and/or the use of appropriate subcontractors. Our manufacturing group fabricates many parts of the building such as channels, decking, wall section panels and equipment elements. In 1981 it is anticipated that we will manufacture the mansard roof and fascia sections.

During 1980 we consolidated all company modular building activity in San Antonio to improve manufacturing efficiency and better utilize specialized labor. The San Antonio site can presently handle 15 to 20 buildings at the same time. Our own fleet of trucks permits better scheduling and reduces transportation costs. The building design and construction complies with national building codes, which makes our buildings acceptable in most states.

In 1981 the modular building program is expected to provide between 40% and 50% of our total building requirements. This will allow us to provide an engineered building at a cost which should be less than on-site construction using local contractors.

CRITICAL PATH FOR DEVELOPMENT OF MODULAR BUILDINGS

1. Day 1 — 8:30 A.M.
Company official welcoming Austin City Mayor and President of Chamber of Commerce to official groundbreaking.

2. Day 1
Site excavation activity.

3. Day 1
Construction steel being prepared on parking lot.

4. Day 2 — A.M.
Building modulars arriving, final concrete work in progress.

5. Day 2 — A.M.
Crawl space floor being completed.

6. Day 2 — A.M.
Building inspections were begun while modulars were still on trailer.

7. Day 2 — 1:00 P.M.
First modular being swung into position.

8. Day 3 — P.M.
Roof signs being erected — mansard roof, fascia and concrete walks were installed during previous night.

9. Day 5 — P.M.
Front landscaping being completed — internal clean-up and preparation by Operations Personnel in progress.

10. Day 6 — 11:00 A.M.
Officials preparing to bite into the first hamburgers.

Store Locations

COMPANY-OPERATED STORES

ALABAMA (40)
Anniston
Athens
Auburn
Bessemer
Birmingham
Chicasaw
Decatur
Dothan
Florence
Gadsden
Homewood
Huntsville
Midfield
Mobile
Montgomery
Opelika
Ozark
Phenix City
Prichard
Selma

ARIZONA (37)
Casa Grande
Douglas
Glendale
Globe
Mesa
Nogales
Phoenix
Scottsdale
Sierra Vista
Tempe
Tucson
Yuma

ARKANSAS (11)
Blytheville
El Dorado
Little Rock
N. Little Rock
Pine Bluff
Texarkana
W. Memphis

CALIFORNIA (76)
Anaheim
Baldwin Park
Berkeley
Buena Park
Calexico
Carmichael
Compton
Cudahy
El Centro
El Cerrito
El Monte
Fontana
Gardena
Inglewood
Lakewood
La Puente
Long Beach
Los Angeles
Lynwood
Monrovia
Montebello
North Highlands
Norwalk
Oakland
Pasadena
Pico Rivera
Pomona
Rancho Cordova
Rialto
Riverside
Sacramento
San Bernardino
San Diego
San Francisco
San Jose
San Leandro
San Pablo
San Ysidro
Santa Ana
Seaside
Stockton
Van Nuys
Westminster

COLORADO (13)
Aurora
Denver
Englewood
Littleton
Thornton
Westminster

FLORIDA (64)
Clearwater
Delray Beach
Ensley
Fern Park
Ft. Lauderdale
Ft. Walton Beach
Gainesville
Hialeah
Hollywood
Jacksonville
Kissimmee
Lake City
Lakeland
Miami
Orange Park
Orlando
Panama City
Parker
Pensacola
Perrine
Plant City
St. Petersburg
Sanford
Tallahassee
Tampa
Temple Terrace
W. Palm Beach
Winter Haven

GEORGIA (81)
Albany
Americus
Atlanta
Augusta
Brunswick
Chamblee
Columbus
Cordele
Covington
Decatur
Douglasville
East Point
Forrest Park
Griffin
Hapeville
LaGrange
Macon
Marietta
Morrow
Riverdale
Roswell
Sandy Springs
Savannah
Smyrna
Thomasville
Tucker
Valdosta
Warner Robbins

ILLINOIS (65)
Alorton
Alton
Belleville
Cahokia
Champaign
Chicago
Chicago Heights
Cicero
Collinsville
Danville
Decatur
Dolton
E. Alton
E. St. Louis
Granite City
Harvey
Hillside
Joliet
Markham
Maywood
Peoria
Riverside
Washington Park
Waukegan
Westmont

INDIANA (22)
Gary
Hammond
Indianapolis
Munster
Terre Haute

KANSAS (15)
Hutchinson
Jacksonville
Kansas City
Olathe
Salina
Shawnee
Topeka
Wichita

LOUISIANA (61)
Alexandria
Algiers
Baker
Bastrop
Baton Rouge
Bogalusa
Bossier City
Chalmette
Covington
Crowley
Hammond
Kenner
Lafayette
Lake Charles
Laplace
Merrero
Metairie
Minden
Monroe
Morgan City
New Iberia
New Orleans
Opelousas
River Ridge
Ruston
Shreveport
Slidell
Terrytown
Thibodaux
W. Monroe

MICHIGAN (54)
Bay City
Burton
Detroit
Ecorse
Flint
Garden City
Highland Park
Inkster
Midland
Mt. Morris
Pontiac
Saginaw
Southgate
Taylor
Troy
Warren

MISSISSIPPI (21)
Biloxi
Greenville
Greenwood
Gulfport
Hattiesburg
Jackson
Laurel
Meridian
Natchez
Pascagoula
Pearl
Southhaven
Vicksburg

MISSOURI (55)
Arnold
Berkeley
Country Club Hills
Ferguson
Florissant
Independence
Joplin
Kansas City
Maplewood
Maryland Heights
Normandy
Overland
Pine Lawn
Raytown
Rock Hill
Springfield
St. Ann
St. Charles
St. Joseph
St. Louis
St. Louis County
University City

NEVADA (5)
Las Vegas

NEW JERSEY (5)
Camden
Gloucester Township
Lawnside

NEW MEXICO (13)
Albuquerque
Farmington
Gallup
Hobbs
Las Cruces
Roswell

NORTH CAROLINA (21)
Burlington
Charlotte
Durham
Greensboro
Greenville
High Point
Jacksonville
Kinston
Raleigh
Rocky Mount
Winston-Salem

OHIO (52)
Akron
Canton
Cleveland
Columbus
Dayton
Fairborn
Mansfield
Massillon
Moraine
Oregon
Reynoldsburg
Springfield
Toledo
Whitehall

OKLAHOMA (25)
Altus
Bethany
Chickasha
Del City
Edmond
Lawton
Midwest City
Moore
Muskogee
Oklahoma City
Shawnee
Tulsa
Village

PENNSYLVANIA (15)
Chester
Darby
Holmes
Philadelphia

SOUTH CAROLINA (17)
Anderson
Charleston
Columbia
Greenville
N. Charleston
Spartanburg
W. Columbia

TENNESSEE (26)
Goodlettsville
Madison
Memphis
Nashville

TEXAS (207)
Abilene
Alice
Amarillo
Arlington
Austin
Beaumont
Beeville
Big Spring
Brownsville
Bryan
Copperas Cove
Corsicana
Dallas
Del Rio
Duncanville
Eagle Pass
Edinburg
El Paso
Farmers Branch
Ft. Worth
Garland
Grand Prairie
Greenville
Harlingen
Hurst
Irving
Killeen
Kingsville
Laredo
Longview
Lubbock
Marshall
McAllen
Mesquite
Midland
Nacogdoches
Nederland
Odessa
Orange
Paris
Pharr
Plano
Port Arthur
San Angelo
San Antonio
San Benito
Seguin
Sherman
Temple
Texarkana
Tyler
Universal City
Uvalde
Victoria
Waco
Weslaco
Wichita Falls

LICENSEE-OPERATED STORES

ALABAMA (1)
Tuscaloosa

ARIZONA (1)
Phoenix

ALASKA (3)
Anchorage

CALIFORNIA (8)
Fairfield
San Francisco
Santa Rosa
Vallejo

CANADA (7)
Langley
Vancouver

CONNECTICUT (1)
New Haven

DISTRICT OF COLUMBIA (5)
Washington

FLORIDA (2)
Jacksonville
Pinellas Park

GEORGIA (4)
Atlanta
Decatur
Mableton
Marietta

HAWAII (3)
Honolulu

INDIANA (1)
Lawrenceburg

KENTUCKY (4)
Louisville
Paducah

MAINE (1)
Portland

MARYLAND (6)
Baltimore
District Heights
Landover
Seat Pleasant

MASSACHUSETTS (6)
Boston
Cambridge
Dorchester
Roxbury
Waltham

MEXICO (7)
Matamores
Monterrey
Nuevo Laredo
Reynosa

MINNESOTA (3)
Minneapolis
St. Paul

MONTANA (1)
Billings

NEW JERSEY (5)
East Orange
Hoboken
Newark

NEW MEXICO (1)
Albuquerque

NEW YORK (26)
Bronx
Brooklyn
Buffalo
Coram
Greece
Farrockaway
Harlem
Huntington
Laurelton
Manhattan
Mt. Vernon
New Rochelle
Queens
Rego Park
Rochester
Roosevelt
Syracuse
Utica
Wyandanch

OHIO (9)
Cincinnati
Sandusky
Springfield

OKLAHOMA (2)
Stillwater
Tulsa

OREGON (11)
Eugene
Klamath Falls
Medford
Portland
Roseburg

PENNSYLVANIA (4)
Greensburg
Pittsburgh

PUERTO RICO (6)
Arecibo
Barrio Cuevas
Bayamon
Caparra
San Juan

RHODE ISLAND (1)
Providence

SOUTH CAROLINA (1)
Greenville

SOUTH DAKOTA (1)
Sioux Falls

TENNESSEE (1)
Memphis

TEXAS (90)
Austin
Corpus Christi
Cleburne
Denison
Houston
Lufkin
Lewisville
McAllen
New Braunfels
San Antonio

VIRGINIA (19)
Alexandria
Arlington
Hampton
Hopewell
Lynchburg
Newport News
Norfolk
Petersburg
Portsmouth
Richmond
Roanoke

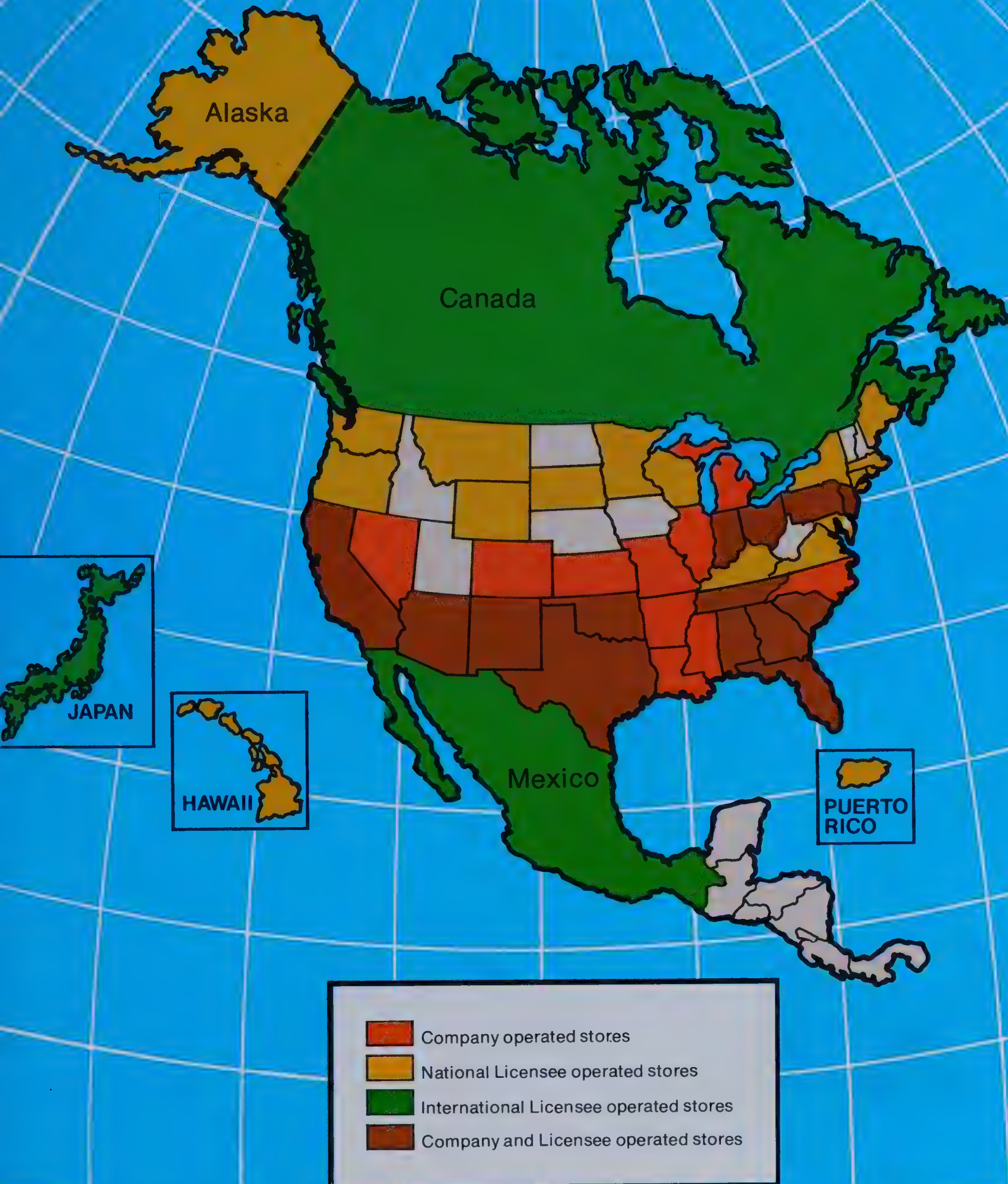
WASHINGTON (9)
Seattle
Spokane
Tacoma
White Center

WISCONSIN (1)
Milwaukee

WYOMING (2)
Cheyenne
Rock Springs

JAPAN (6)
Asaka
Kichijoji
Tokyo

Map of Store Locations



The addition of a licensee in Ontario, Canada was a significant event for the company. The licensee is expected to open 95 stores during the next several years. Our licensee in Japan has opened six stores and anticipates opening several more in 1981. Our licensee in Mexico opened four stores during the year.

The 64 licensee store openings in 1980 were the most in any one year since the program began. The openings fell within the anticipated goal of 60 to 70 stores. More stores might have been built, but for high interest rates and the cost of real estate.

In addition to the 64 licensee stores opened in 1980, six Step 13 stores were added. Unfortunately, licensees experienced a higher than expected closing rate because of economic problems and the effects of absentee ownership. During the year, 25 stores were closed, of which five were in Texas, seven in Utah, five in Kentucky, and five in the state of Washington. Others were scattered throughout the U.S.

The average weekly sales volumes for licensee stores under the new licensing program are slightly over $8,000 per week, which compares favorably with average weekly sales volumes of company-operated stores.

In 1981 the Licensing Department will continue to strengthen its supervisory activities through its district field consultants and real estate and construction people.

PURCHASING

The Purchasing Department located in San Antonio is the central agency for negotiating contracts for all major food products. With our limited menu concept we are able to obtain favorable prices from food and supply vendors. While we purchase centrally from approximately 250 vendors, distribution is accomplished through 150 food and supply distributors. Deliveries are scheduled to permit maximum product availability with minimum inventory. For example, delivery schedules are set so that we are assured of a continuous supply of fresh chicken.

Chicken prices during 1980 were somewhat higher than originally expected due to the heat wave which hit the major poultry growing areas. The first half of the year was generally favorable for us, but the increases during the second half of the year over 1979 ranged from 10.4% to 41.5%. The year-to-year increase was 6.1%.Since our purchases of chicken were almost $100,000,000, the difference between 1979 and 1980 was approximately $6,000,000. The period by period comparisons follow:

CHICAGO WEIGHTED AVERAGE

	cents/lb.		
Period	1980	1979	1978
1	47.08	45.61	38.54
2	43.44	47.05	41.51
3	40.40	48.58	43.04
4	38.46	47.24	43.73
5	38.73	46.65	44.71
6	40.75	46.55	47.58
7	46.18	46.78	51.25
8	51.95	39.57	49.39
9	54.77	39.92	43.29
10	53.64	37.91	44.41
11	51.01	36.66	41.61
12	48.87	42.76	41.63
13	48.27	43.72	41.97
Average	46.43	43.77	44.05

For 1981 we are projecting higher chicken prices by six to seven cents per pound due to the shortage of red meat, higher grain prices, and higher energy costs. With the world grain shortage, exports should remain strong, forcing grain prices to higher levels, thereby resulting in higher poultry prices.

To partially offset these anticipated prices, we continue to use long-term contracts and broiler futures for hedging. During 1980 our fixed price contracts ended in April. For 1981 our Purchasing Department has already obtained contracts for approximately 20% of our requirements. We see an ample supply of broiler meat available for 1981.

In order to take advantage of buying opportunities, the company has already committed to:

48% of our shortening needs
90% of the first quarter's flour
100% of our corn usage
100% of our potato needs
100% of our jalapeno pepper needs

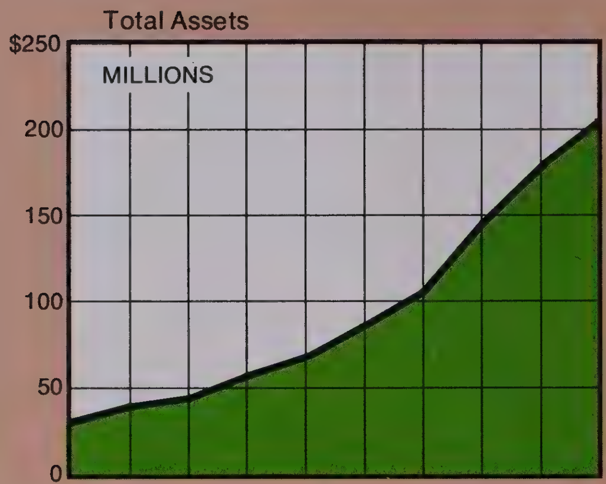
Bread costs are expected to increase in 1981 over 1980. However, new methods of distribution could hold such costs down.

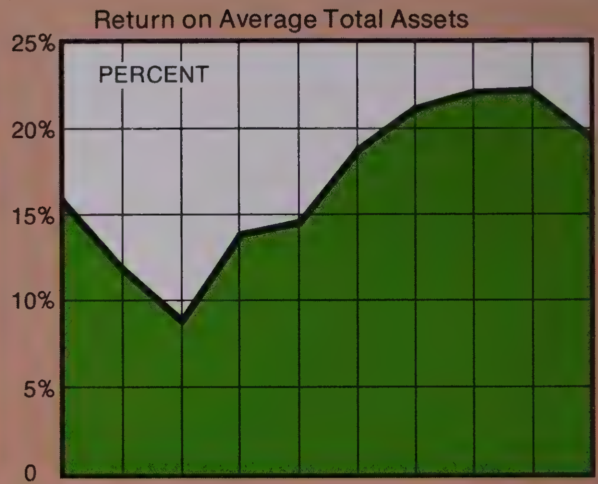
The price of paper goods has escalated due to energy costs. We see no shortages in package goods and our prices are set for three to six months of 1981.

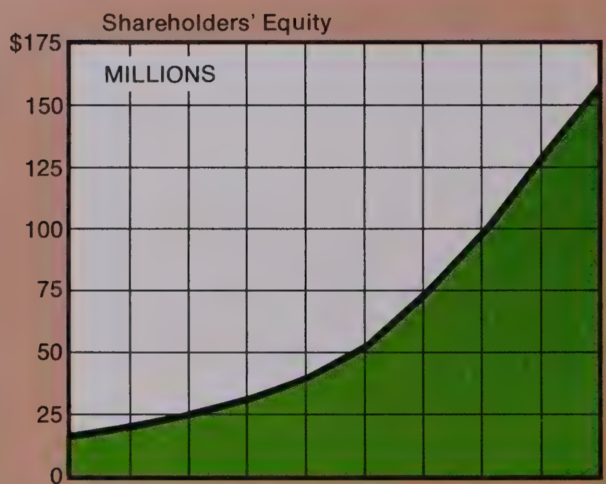
Delivery costs continue to increase, as do handling and storage costs; but the department continues to monitor these costs for possible savings.

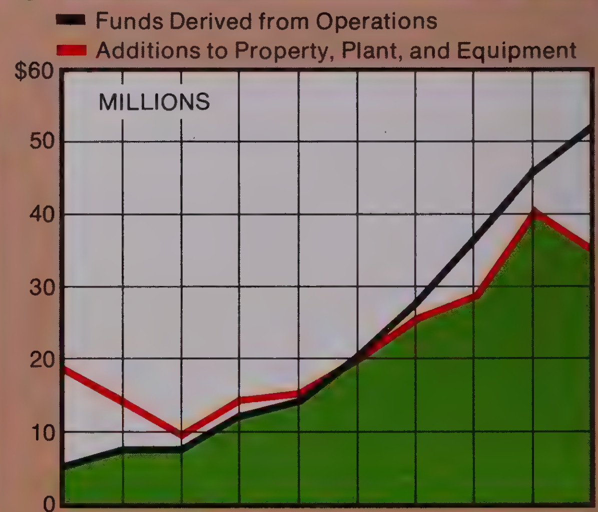
In summary, over-all food costs are expected to increase in 1981 over 1980.

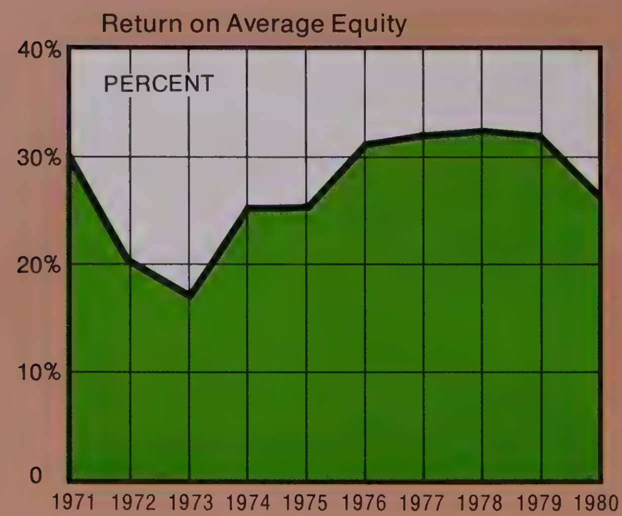
Ten Year Trends

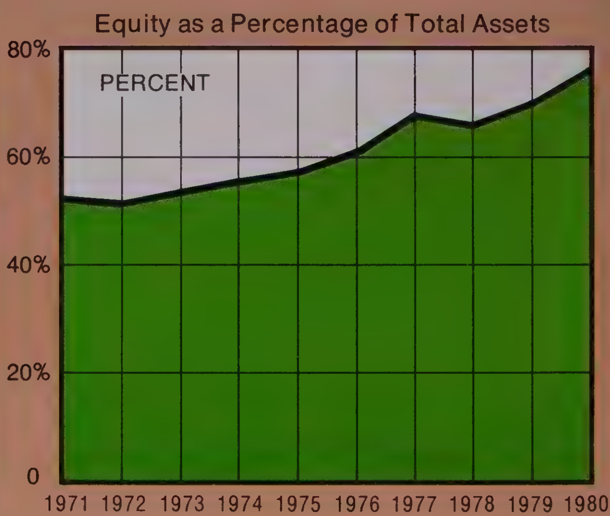












Financials

Consolidated Summary of Operations

CHURCH'S FRIED CHICKEN, INC. AND SUBSIDIARIES

(Dollars in thousands except for per share amounts)
(Not covered by Accountants' Report)

	1980	1979	1978
Store sales	$ **383,791**	342,495	298,346
Royalty fees	**2,689**	2,021	1,359
Other	**5,302**	3,908	1,831
Total revenues	**391,782**	348,424	301,536
Cost of goods sold	**163,011**	142,813	125,707
Selling, general and administrative expenses	**162,465**	139,707	119,989
Interest expense	**1,577**	1,470	1,315
Total costs and expenses	**327,053**	283,990	247,011
Earnings before income taxes	**64,729**	64,434	54,525
Income taxes	**26,633**	28,200	26,483
Net earnings	$ **38,096**	36,234	28,042
Earnings per common and common equivalent share	$ **3.01**	2.87	2.22
Cash dividends paid per common share	$ **.69**	.56	.395
Cash dividends declared per common share	$ **.69**	.56	.395
Weighted average shares outstanding	**12,643,189**	12,630,578	12,604,860
FOR THE YEAR:			
Depreciation and amortization	$ **11,998**	9,316	7,774
Funds derived from operations	$ **52,264**	46,657	36,904
Additions to property, plant and equipment	$ **35,050**	40,200	28,950
Stores opened & purchased from licensees	**98**	124	95
Stores closed	**1**	—	2
Stores sold to licensees	**6**	5	4
AT YEAR END:			
Company-operated stores	**1,001***	910*	791
Licensed stores	**259**	215	179
Total assets	$ **203,946**	178,785	145,144
Shareholders' equity	$ **157,507**	127,314	97,587
Shareholders' equity to total assets	**.77 to 1**	.71 to 1	.67 to 1
Long-term debt and obligations under capital leases	$ **13,657**	13,831	11,573

*Includes 14 stores (13 in 1979) operated by majority-owned subsidiary.

1977	1976	1975	1974	1973	1972	1971
225,725	173,045	136,075	109,829	91,349	66,633	45,310
675	467	424	346	308	246	357
1,083	612	422	411	278	98	62
227,483	174,124	136,921	110,586	91,935	66,977	45,729
93,787	70,914	62,332	49,716	46,933	30,251	19,998
92,427	73,084	55,512	45,283	36,190	28,433	18,470
1,274	1,423	1,444	1,320	1,250	885	287
187,488	145,421	119,288	96,319	84,373	59,569	38,755
39,995	28,703	17,633	14,267	7,562	7,408	6,974
19,432	13,828	8,324	6,853	3,619	3,504	3,297
20,563	14,875	9,309	7,414	3,943	3,904	3,677
1.65	1.21	.78	.63	.34	.33	.32
.275	.1817	.1108	.0317	—	—	—
.225	.20	.1267	.0475	—	—	—
12,485,776	12,402,442	12,205,134	12,017,634	11,748,852	12,030,820	11,520,336
6,282	4,988	4,198	3,290	2,922	2,237	1,664
28,132	21,004	14,483	12,527	7,699	7,766	5,876
25,717	20,465	15,275	14,385	9,862	14,128	15,911
71	83	78	51	54	94	123
4	3	8	10	6	23	6
—	2	—	3	1	—	—
702	635	557	487	449	402	331
128	94	78	78	76	71	67
107,367	85,692	68,997	57,449	46,832	40,591	32,264
73,850	53,169	40,319	32,366	25,515	21,301	17,075
.69 to 1	.62 to 1	.58 to 1	.56 to 1	.54 to 1	.52 to 1	.53 to 1
11,007	13,553	15,601	12,762	13,092	13,142	10,923

Trends

Church's Fried Chicken, Inc. operates fast food, limited menu, take-out restaurants throughout the United States. The trends for the company are dependent upon the same factors which generally affect the foodservice industry. Some factors are: consumers' confidence in their financial situations, the rate of increase in personal consumption expenditures, overall inflation and disposable income.

Customer traffic for the restaurant industry according to the National Restaurant Association was down 1.17% (1979 vs 1978) and 3.8% (1980 vs 1979). Company real volume followed a similar pattern, down 2.5%, 1979 vs 1978, and 8.5%, 1980 vs 1979. Change in real volume during 1981 is expected to remain negative during the first half of the year with gradual improvement in the third quarter. The fourth quarter change could be slightly positive.

Inflation and Changes in Price

The company policy is to maintain stable menu prices during the year. In the mid-seventies the average menu prices generally remained stable. In 1979 average menu prices were approximately 6.2% higher than 1978; in 1980 average menu prices increased 6.6% over 1979. Due to cost increases during 1980 for chicken, potatoes, corn, soft drink syrup, and paper goods the company raised menu prices in various markets in August, September, and October. The average base menu price was about 93¢ at the end of 1979 and $1.03 at the end of 1980.

The company's food costs are closely tied to market conditions. Commodity prices have generally been increasing and it is expected that the trend will continue in 1981. Poultry prices, which have a major impact on food costs, are expected to average 54¢ per pound which is about 17% higher than 1980. Menu prices will be adjusted if necessary to maintain adequate gross profit margins.

Liquidity and Capital Resources

Funds derived from operations are the company's primary source of liquidity. These funds amounted to $52.3 million in fiscal 1980, $46.7 million in 1979, and $36.9 million in 1978.

The company has available bank lines of credit aggregating $12,000,000. It has not been necessary to utilize these funds during the last three fiscal years.

Long-term debt plus obligations under capital leases were $14.3 million in 1980, $14.4 million in 1979, and $11.9 million in 1978. These obligations consist principally of notes payable secured by first mortgages on certain store properties.

Capital expenditures for new and improved facilities and equipment were $35.0, $40.2, and $29.0 million for 1980, 1979, and 1978, respectively. The 1981 total is expected to be approximately $38.0 million. The company anticipates that funds necessary for capital expenditures and working capital during 1981 will continue to be derived from internally generated funds.

Results of Operations

This discussion treats material changes in revenue and expense items between 1980 and 1979, 1979 and 1978, and 1978 and 1977 fiscal years.

System-Wide Sales

System-wide sales include those of company stores and licensees. In 1980 sales were $466.1 million or 14.2% over 1979's $408.3 million which was an increase of 18.3% over the prior year's $345.0. The increase of 1978 over 1977 was 35.7%, $345.0 versus $254.2 million.

Company Store Sales

Company store sales were $383.8 million in 1980 compared to 1979's $342.5 million for an increase of 12.1%. Sales in 1979 were 14.8% higher than 1978's $298.3 million; however, 1979 had 52 weeks compared to 53 weeks for 1978. On the basis of 52 weeks the increase was 16.8%, $342.5 million vs. $293.3 million. Store sales increased 32.2% from $225.7 million in 1977 to $298.3 million in 1978.

Comparisons for company-operated chicken and hamburger stores (excluding 14 Dining of California stores) for the three periods involved are:

	Average No. of Stores Open	Percent Increase
1980	942	13.2
1979	832	12.3
1978	741	11.9
1977	662	—

Average sales per chicken store for the years under discussion were:

1980	$402,683
1979	410,639
1978	403,786*
1977	342,000

*53 weeks

Average sales in 1980 were down 1.9% from 1979. With menu prices for 1980 about 6.6% over 1979, this indicates a decline of 8.5% in real volume. The average menu price in 1979 was approximately 6.2% higher than in 1978. Adjusting the 1978 sales to 52 weeks ($396,167), 1979 sales would be 3.7% higher. With the menu adjustment of 6.2%, the decline in real volume is 2.5%. Average sales per chicken store were 18.1% higher in 1978 than in 1977 ($403,786 versus $342,000). A portion of the increase in total sales was due to the 53 week year in 1978 as opposed to 52 weeks in 1977. Menu price increases of 5.7% and an increase in real unit volumes during the year accounted for the balance of the increase of total sales.

Side items represented an estimated 28.24% of store sales in 1980, 27.6% in 1979, 27.7% in 1978, and 26.2% in 1977.

For hamburger stores, the average weekly sales per store went from $6,622 in 1978 to $6,689 in 1979 to $6,988 in 1980. In 1977 average weekly sales were $5,074.

Royalty Fees and Other Revenue

Royalty fees paid to the company are a percentage of the licensee's sales. As a result of increased sales and additional stores, fees increased 33.2% to \$2.69 million in 1980 from \$2.02 million in 1979. Royalty fees increased 48.5% from 1978 to 1979, \$1.36 million to \$2.02 million. In 1977 royalty fees were \$0.674 million.

In 1980, 64 new licensed stores opened, compared to 54 in 1979, 49 in 1978 and 35 in 1977. In 1980 the licensing program also gained six Step 13 stores, but 25 licensed stores closed, for a net gain of 45.

Other revenue, which includes sales of equipment to licensees, licensee application and registration fees, equipment installation charges, and interest income, was \$5.30 million for 1980 compared to 1979's \$3.91 million, a gain of 35.5%. Of this increase \$515,000 represented area development fees paid by licensees for periods other than 1980 which were determined to be non-refundable. Other revenue increased 114% from 1978 to 1979, \$1.83 million to \$3.91 million, as a result of increased licensing activity and increased interest income derived from larger amounts of short-term investments at higher interest rates. In 1978 interest income was \$693,000, in 1979 it exceeded \$2,000,000, and in 1980 it approximated \$1,860,000. Other revenue increased in 1978 over 1977 primarily as a result of increased licensing activity under a new program initiated in 1976 and increased interest income derived from larger amounts of short-term investments at higher rates.

Cost of Goods Sold

For 1980 cost of goods sold as a percentage of store sales was 42.5% compared to 1979's 41.7%. Poultry prices were the major reason for the increase. Their average was 46.43¢ per pound compared to 1979's 43.77¢, a 6.1% increase.

In 1979 cost of goods sold increased \$17.1 million from 1978 as a result of increased purchases. As a percentage of store sales, 1979's cost of goods sold decreased to 41.7% from 1978's 42.1%. The major factor was the decrease in poultry prices.

In 1977 the cost of goods sold as a percentage of store sales was 41.5%. The increase to 1978's 42.1% was primarily due to increased poultry prices.

Poultry normally accounts for 63% to 67% of the cost of goods sold. In 1980 it was close to 75%. Approximate weighted average wholesale poultry prices (Chicago) for the past three years were: 1980 - 46.43¢, 1979 - 43.77¢, and 1978 - 44.05¢.

Although the company normally buys poultry at prices related to current wholesale prices, it customarily hedges to a limited extent against rapid fluctuations in poultry costs by purchasing broiler futures in the commodities market and by negotiating long-term contracts for poultry at fixed prices. In 1980 our broiler hedging activities were minimal. Our fixed price contracts ended in April before the mid-summer heat wave which caused part of the increase in chicken prices. During 1979 between 40% and 45% of requirements was so covered. The entire year's requirements of corn for 1979 were purchased in late 1978. Product costs for items other than poultry and beef in 1980 remained approximately the same as 1979.

Selling, General, and Administrative Expenses

In 1980 elements making up SG & A can be grouped and compared with 1979 and 1978 as follows:

	1980	1979	1978
Wages, salaries and related benefits	62.9%	64.0%	63.1%
Occupancy costs, including depreciation and amortization, insurance, rent, maintenance, ad valorem and franchise taxes, and utilities	26.0%	24.3%	24.8%
Other expense items including advertising, auto and truck, professional fees, travel and supplies	11.1%	11.7%	12.1%

Store wages and salaries have continued to increase as a result of minimum wage increases: to $2.65 on January 1, 1978; to $2.90 on January 1, 1979; and to $3.10 on January 1, 1980. (On January 1, 1981 the minimum wage was further increased to $3.35.)

Occupancy costs increased in 1980 as they did in 1979 and 1978. Key expenses for the past three years on a per store basis are:

Year	1980	1979	1978
Average Number of Stores	956	845	741
Insurance	$2,592	$2,577	$2,638
Maintenance & Repairs	5,738	5,774	6,290
Taxes	2,782	2,182	2,022
Utilities	16,838	14,688	13,958
Depreciation & Amortization	12,531	11,045	10,491

Virtually all expenses were subject to normal inflationary pressures. Absolute dollars also increased because of additional stores.

Federal and State Income Taxes

The company's effective income tax rates are based upon statutory rates and credits against tax primarily consisting of investment tax credits on assets placed in service during the year and the Targeted Jobs Tax Credit.

The effective Federal and State tax rate for 1980 was 41.1% compared with 43.8% in 1979. Most of the reduction was due to an increase in the Targeted Jobs Tax Credit. The 1978 effective rate was 48.6% and most of the reduction to 43.8% was due to the Targeted Jobs Tax Credit and the 1979 rate decrease (48% to 46%) legislated by Congress. The 1977 rate was 48.6%.

State income taxes increased from $2.7 million in 1979 to $3.0 million in 1980. In 1978 and 1977 the amounts were $2.1 million and $1.5 million, respectively. Increased taxes were due to higher sales plus some increase in the relative proportion of business done in states with corporate income tax. The 1980 effective state rate was 4.6% compared to 4.2% for 1979, 3.9% for 1978 and 3.7% for 1977.

CHURCH'S FRIED CHICKEN, INC. AND SUBSIDIARIES

December 28, 1980, December 30, 1979 and December 31, 1978

ASSETS	**1980**	1979	1978
		(Thousands of dollars)	
Current assets:			
Cash (includes short-term cash investments of $21,100,000 in 1980, $21,293,000 in 1979 and $20,000,000 in 1978)	**$ 26,063**	23,745	20,229
Receivables	**6,498**	6,280	6,238
Inventories	**5,783**	5,949	7,581
Prepaid expenses and other	**2,358**	2,173	1,140
Total current assets	**40,702**	38,147	35,188
Notes receivable, net of current portion	**894**	666	751
Property, plant and equipment, at cost, partially pledged (note 3):			
Buildings and improvements	**102,885**	83,214	64,898
Equipment	**50,953**	42,927	33,639
	153,838	126,141	98,537
Less accumulated depreciation and amortization	**47,763**	37,083	28,550
	106,075	89,058	69,987
Land	**49,371**	43,102	33,826
Facilities under construction	**5,588**	6,857	4,844
Net property, plant and equipment	**161,034**	139,017	108,657
Other assets and deferred charges, net of applicable amortization	**1,316**	955	548
	$203,946	178,785	145,144

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1980	1979	1978
		(Thousands of dollars)	
Current liabilities:			
Accounts payable	**$ 13,052**	21,142	19,360
Current portion of long-term debt and obligations under capital leases (note 3)	**686**	603	344
Accrued expenses and other:			
Ad valorem and state taxes	**2,073**	1,769	1,370
Salaries and wages	**3,292**	2,902	1,876
Other	**4,747**	4,169	3,428
Federal income taxes (note 2)	**4,396**	3,692	7,028
Total current liabilities	**28,246**	34,277	33,406
Long-term debt and obligations under capital leases, net of current portion (note 3)	**13,657**	13,831	11,573
Deferred retirement (note 4)	**165**	—	—
Deferred Federal income taxes (note 2)	**4,371**	3,363	2,578
Shareholders' equity (notes 3 and 4):			
Preferred stock, $100 par value; authorized 10,000 shares; none issued	—	—	—
Common stock, $.04 par value; authorized 15,000,000 shares; issued 12,622,490 in 1980, 12,557,533 in 1979 and 12,485,047 in 1978	**505**	502	499
Additional paid-in capital	**20,213**	19,391	18,254
Retained earnings	**138,133**	108,719	79,487
Less 11,095 shares in 1980, 23,862 in 1979 and 31,690 in 1978 held in treasury, at cost	**(271)**	(559)	(477)
Less deferred compensation	**(1,073)**	(739)	(176)
Total shareholders' equity	**157,507**	127,314	97,587
Commitments and contingencies (notes 3 and 5)			
	$203,946	178,785	145,144

Consolidated Statements of Earnings

CHURCH'S FRIED CHICKEN, INC. AND SUBSIDIARIES

Years ended December 28, 1980, December 30, 1979 and December 31, 1978

	1980	1979	1978
	(Thousands of dollars except per share amounts)		
Revenues:			
Store sales	**$383,791**	342,495	298,346
Royalty fees	**2,689**	2,021	1,359
Other	**5,302**	3,908	1,831
Total revenues	**391,782**	348,424	301,536
Costs and expenses:			
Cost of goods sold	**163,011**	142,813	125,707
Selling, general and administrative expenses	**162,465**	139,707	119,989
Interest expense	**1,577**	1,470	1,315
Total costs and expenses	**327,053**	283,990	247,011
Earnings before income taxes	**64,729**	64,434	54,525
Income taxes (note 2):			
Federal:			
Current	**22,804**	24,997	24,432
Deferred (credit)	**842**	497	(60)
State	**2,987**	2,706	2,111
Total income taxes	**26,633**	28,200	26,483
Net earnings	**$ 38,096**	36,234	28,042
Earnings per common and common equivalent share	**$ 3.01**	2.87	2.22

Consolidated Statements of Changes in Financial Position

CHURCH'S FRIED CHICKEN, INC. AND SUBSIDIARIES

Years ended December 28, 1980, December 30, 1979 and December 31, 1978

	(Thousands of dollars)		
Sources of funds:			
Net earnings	**$ 38,096**	36,234	28,042
Items not requiring funds:			
Depreciation and amortization	**11,998**	9,316	7,774
Losses on disposition and retirement of property, plant and equipment	**706**	322	588
Deferred taxes on income	**1,008**	785	500
Other	**456**	—	—
Funds derived from operations	**52,264**	46,657	36,904
Proceeds from sales of property, plant and equipment	**329**	202	1,019
Increase in long-term debt and capital lease obligations	**493**	2,865	934
Proceeds from exercise of stock options and restricted stock plans	**485**	527	740
	$ 53,571	50,251	39,597
Applications of funds:			
Additions to property, plant and equipment	**35,050**	40,200	28,950
Reduction of long-term debt and capital lease obligations	**667**	607	367
Cash dividends declared	**8,682**	7,002	4,899
Other applications	**586**	354	315
Increase in working capital	**8,586**	2,088	5,066
	$ 53,571	50,251	39,597
Changes in working capital by component:			
Cash	**2,318**	3,516	12,558
Receivables	**218**	42	3,524
Inventories	**(166)**	(1,632)	796
Prepaid expenses and other current assets	**185**	1,033	516
Accounts payable	**8,090**	(1,782)	(8,191)
Current portion of long-term debt and obligations under capital leases	**(83)**	(259)	(17)
Accrued expenses and other current liabilities	**(1,272)**	(2,166)	(1,712)
Federal income taxes	**(704)**	3,336	(2,408)
Increase in working capital	**$ 8,586**	2,088	5,066

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

CHURCH'S FRIED CHICKEN, INC. AND SUBSIDIARIES

Years ended December 28, 1980, December 30, 1979 and December 31, 1978

	Common stock		(Thousands of dollars)				
	Shares	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Deferred compensation	Total shareholders' equity
Balances at December 25, 1977	12,353,924	$494	17,010	56,344	—	—	73,848
Net earnings	—	—	—	28,042	—	—	28,042
Cash dividends ($.395 per share)	—	—	—	(4,899)	—	—	(4,899)
Acquisition of 40,000 treasury shares	—	—	—	—	(602)	—	(602)
Treasury stock awarded (8,310 shares) in connection with restricted stock plan	—	—	76	—	125	(195)	6
Amortization of deferred compensation	—	—	—	—	—	19	19
Stock options exercised	131,123	5	1,168	—	—	—	1,173
Balances at December 31, 1978	12,485,047	499	18,254	79,487	(477)	(176)	97,587
Net earnings	—	—	—	36,234	—	—	36,234
Cash dividends ($.56 per share)	—	—	—	(7,002)	—	—	(7,002)
Acquisition of 20,000 treasury shares	—	—	—	—	(501)	—	(501)
Treasury stock awarded (27,828 shares) in connection with restricted stock plan, net of repurchases	—	—	300	—	419	(692)	27
Amortization of deferred compensation, net of repurchases	—	—	—	—	—	129	129
Stock options exercised	72,486	3	837	—	—	—	840
Balances at December 30, 1979	12,557,533	502	19,391	108,719	(559)	(739)	127,314
Net earnings	—	—	—	38,096	—	—	38,096
Cash dividends ($.69 per share)	—	—	—	(8,682)	—	—	(8,682)
Acquisition of 12,500 treasury shares	—	—	—	—	(313)	—	(313)
Treasury stock awarded (25,267 shares) in connection with restricted stock plan, net of repurchases	—	—	(9)	—	601	(567)	25
Amortization of deferred compensation, net of repurchases	—	—	—	—	—	233	233
Stock options exercised	64,957	3	831	—	—	—	834
Balances at December 28, 1980	12,622,490	$505	20,213	138,133	(271)	(1,073)	157,507

See accompanying notes to consolidated financial statements.

CHURCH'S FRIED CHICKEN, INC. AND SUBSIDIARIES

December 28, 1980, December 30, 1979 and December 31, 1978

1. Summary of Significant Accounting Policies

Business and Principles of Consolidation. The company operates and licenses fast food retail outlets selling fried chicken and other food items. The consolidated financial statements include the accounts of the company and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Receivables. Receivables consist primarily of (i) amounts due from distributors under sale and repurchase agreements, (ii) amounts due from licensees for sales of equipment and supplies, and (iii) the current portion of notes receivable.

Inventories. Inventories, consisting primarily of food, packaging materials, and replacement parts, are stated at the lower of cost (first-in, first-out) or market (replacement cost).

Property, Plant and Equipment. Buildings and improvements and equipment are depreciated and amortized over the estimated economic lives of the assets. The straight-line method of depreciation is used for financial purposes while accelerated depreciation methods, when available, are used for Federal income tax purposes. Deferred Federal income taxes are provided on the difference between financial and tax depreciation.

Depreciation and amortization are computed using the following range of lives:

Store buildings and improvements	15 years
Other buildings and improvements	34-40 years
Equipment	3-8 years

Maintenance and repair costs are charged to earnings as incurred. Expenditures for significant betterments are capitalized.

The cost and accumulated depreciation or amortization of property retired or disposed of are removed from the accounts and any resulting gain or loss is reflected in the statements of earnings.

Store Closings. Low volume stores that are considered unlikely to attain acceptable levels of performance are closed. The statements of earnings include disposition losses. Properties not yet sold are included in the accompanying balance sheets at net realizable value.

Deferred Costs. Costs incurred in connection with obtaining long-term financing are deferred and amortized on a straight-line basis over the term of the indebtedness.

Application, License and Royalty Fees. All fees from licensed operations are included in revenue as earned. In 1980, management accelerated the revenue recognition for application fees from the time the site is approved or construction begun to the time cash is received. Management believes this method will more accurately relate the income recognition to performance of the related service. As a result of this change, $515,000 was recognized as revenue in 1980 which was collected in prior years.

License fees are earned when the related store opens. Unearned license fees which have been collected are included in current liabilities. Royalty fees are based on licensee revenues and are recognized in the period the related revenues are earned.

Self-Insurance Programs. The company self-insures for general and auto liability and medical insurance. The related cost is provided for in the financial statements by a charge to income based on estimates of incurred but not reported losses. Predetermined loss limits have been arranged with insurance companies to limit the company's per occurrence cash outlay and aggregate annual loss.

Earnings per Common and Common Equivalent Share. Earnings per common and common equivalent share are computed on the basis of the weighted average number of common and common equivalent shares (dilutive stock options) outstanding. Fully diluted earnings per share are the same as earnings per common and common equivalent share.

2. Income Taxes

Deferred Federal income taxes are provided for all significant differences between financial and tax earnings. The sources of these differences in 1980, 1979 and 1978 and the tax effect of each were as follows:

	Tax earnings greater than (less than) financial earnings			Resulting in current taxes greater than (less than) reported tax expense		
Sources	1980	1979	1978	1980	1979	1978
			(In thousands)			
Excess of tax over financial depreciation	$(2,783)	(2,080)	(1,339)	(1,280)	(957)	(643)
Difference between interest and amortization on real estate leases capitalized for financial statement purposes and minimum lease payments deducted for tax purposes	326	296	312	150	136	150
Licensee fees received in excess of (less than) amounts earned	(726)	(172)	453	(334)	(79)	217
Excess of self-insurance expense over claims paid	344	798	715	158	367	343
Other	1,008	78	(16)	464	36	(7)
	$(1,831)	(1,080)	125	(842)	(497)	60

The effective tax rates for 1980, 1979 and 1978 vary from the expected statutory Federal income tax rates as follows:

	1980	1979 (In thousands)	1978
Computed Federal tax expense at statutory rate	$29,775	29,640	26,172
Investment tax credit (flow-through method)	(947)	(869)	(694)
Targeted jobs tax credit	(4,016)	(2,000)	—
State income taxes	1,613	1,461	1,098
Other	208	(32)	(93)
Tax expense per financial statements	$26,633	28,200	26,483

3. Long-term Debt and Lease Obligations

Long-term obligations consist principally of notes payable secured by first mortgages on certain store properties (depreciated cost of $8,149,000 in 1980) and other obligations, as follows:

	1980	1979 (In thousands)	1978
9¼% mortgage note payable in semiannual installments of $110,600 including interest until 1992	$ 1,513	1,588	1,658
8¾% mortgage note payable in semiannual installments of $133,443 including interest until 1993	2,048	2,131	2,206
8⅞% mortgage note payable in quarterly installments of $67,056 including interest until 1995	2,157	2,230	2,280
11% mortgage notes payable in quarterly installments averaging $110,542 including interest in 1981, and lesser amounts thereafter	1,930	2,094	—
Capital lease obligations	6,587	6,274	5,730
Other	108	117	43
	14,343	14,434	11,917
Less current portion	686	603	344
	$13,657	13,831	11,573

The aggregate principal payments due in each of the next five years for notes payable are as follows:

1981 - $500,000* 1983 - $653,000 1985 - $496,000
1982 - $553,000 1984 - $761,000 *included in current liabilities

The company has an agreement which expires June 1, 1982, and provides for a revolving line of credit up to $10,000,000 ($10,000,000 in 1979 and $8,000,000 in 1978) at the current prime lending rate. The agreement requires a fee of ½ of 1% per annum on the unused commitment and the maintenance of minimum amounts of net worth, working capital, cash flow, and unencumbered property, plant and equipment. The agreement also places limitations on the creation of additional debt. Amounts which may be used for payment of cash dividends and purchase of the company's common shares are limited to $4,338,000 at December 28, 1980, plus 35% of subsequent net earnings. The entire line of credit was available at December 28, 1980.

In connection with the agreement, the company is expected to maintain average compensating balances ranging from 5% to 10% of outstanding indebtedness under the respective line of credit plus 5% to 10% of the unused portion of the line. Such compensating balances are not legally restricted as to withdrawal. The average compensating balances required to be maintained under the company's credit agreements amounted to $913,000 in 1980, $842,000 in 1979 and $800,000 in 1978. The compensating balance requirements at the respective year ends were $850,000, $1,000,000 and $800,000.

The company has an agreement which expires June 1, 1981 for an additional $2,000,000 line of credit at 112% of the current prime lending rate. The agreement has no commitment fees or compensating balance requirements. This additional line of credit was also available at December 28, 1980.

There were no short-term borrowings during 1980, 1979 or 1978.

Real estate leases covering store land and buildings expire on various dates through 2031 and most require additional payments for property taxes, insurance and maintenance. Certain real estate leases provide for rentals based upon a percentage of sales, in addition to the minimum rental payments. Such percentage rentals, which are charged to rent expense as accrued, were not significant.

Future minimum payments under capital and operating leases, including renewal options, as of December 28, 1980 were as follows:

Year	Capital leases	Operating leases (In thousands)
1981	$ 892	3,078
1982	890	2,746
1983	873	2,661
1984	845	2,586
1985	823	2,504
Subsequent years	12,153	39,729
Total minimum lease payments	16,476	53,304
Less amount representing interest	9,889	
Total obligations under capital leases	6,587	
Less current portion	186	
Long-term obligations under capital leases with interest rates ranging from 3.89% to 15.25%	$ 6,401	

Buildings and improvements include property recorded under capital leases of $7,666,000, $7,195,000 and $6,519,000 at December 28, 1980, December 30, 1979, and December 31, 1978, respectively. Included in accumulated depreciation and amortization are $3,562,000, $3,073,000 and $2,615,000, respectively, of accumulated amortization related to the aforementioned property. Amortization expense in connection with leased property under capital leases was $504,000, $454,000 and $449,000 and interest expense on the outstanding obligations under such leases was $706,000, $626,000 and $638,000 in 1980, 1979 and 1978, respectively.

Rental expense (excluding contingent rentals) for all operating leases for 1980, 1979 and 1978 was approximately $3,713,000, $3,245,000 and $2,597,000, respectively.

4. Compensation and Benefit Plans

Stock Options. The company has qualified and nonqualified stock option plans which provide for the granting to executives and key salaried employees of options to purchase shares of the company's common stock at not less than fair market value at the date of grant. Such options are exercisable for not more than five years from the date of grant. Of the options outstanding at December 28, 1980, 65,663 are qualified. The exercise date for such options has been accelerated to May 21, 1981 and all such options not exercised at that date will become nonqualified.

Following is a summary of activity in the plans for the years ended December 28, 1980, December 30, 1979 and December 31, 1978.

	Average price per share		Common shares reserved	Options outstanding	Options exercisable
	Option	Market			
Balances - December 25, 1977			476,474	457,396	116,122
Reserved	—	—	60,000	—	—
Granted	$20.17	20.17	—	42,540	—
Became exercisable	7.65	22.16	—	—	93,572
Cancelled or expired	—	—	—	(89,377)	(2,160)
Exercised	5.61	20.52	(131,123)	(131,123)	(131,123)
Balances - December 31, 1978			405,351	279,436	76,411
Reserved	—	—	65,000	—	—
Granted	25.19	25.19	—	61,830	—
Became exercisable	9.37	25.63	—	—	60,703
Cancelled or expired	—	—	—	(57,891)	(1,650)
Exercised	6.88	24.33	(72,486)	(72,486)	(72,486)
Balances - December 30, 1979			397,865	210,889	62,978
Granted	23.67	23.67	—	54,575	—
Became exercisable	12.37	23.73	—	—	47,633
Cancelled or expired	—	—	—	(50,249)	(4,226)
Exercised	7.07	24.52	(64,957)	(64,957)	(64,957)
Balances - December 28, 1980			332,908	150,258	41,428

The terms of the options outstanding at December 28, 1980 are summarized as follows:

Years Granted	Years Exercisable	Shares	Market value and option price at dates granted: Per Share	Total
1976	1977-1981	18,610	$ 8.28 - 11.00	$ 179,606
1977	1978-1982	45,053	10.59 - 14.88	570,731
1978	1979-1983	11,615	15.54 - 28.25	241,339
1979	1980-1984	31,600	24.19 - 26.56	795,041
1980	1981-1985	43,380	19.19 - 29.44	1,038,520
		150,258		$2,825,237

No charges to earnings are made at any time for either the qualified or nonqualified options. Upon exercise the excess of the option price received over the par value of the shares issued is credited to additional paid-in capital.

Restricted Stock Plan. The company has a restricted stock plan which provides to key management employees the opportunity to purchase shares of common stock at a price not less than $1 per share. Shares of common stock purchased under the plan are restricted in that the shares may not be sold, assigned, transferred, pledged, or otherwise encumbered as long as they remain subject to the restrictions. The restrictions on the stock lapse at a rate of 20% on each anniversary date for five years.

Treasury stock has been reserved for use in the restricted stock plan. Upon purchase of the restricted stock, shareholders' equity is charged with the deferred compensation expense incurred by the company (which is measured as the difference between the fair market value of the stock at the date of grant and the amount paid by the participant), treasury stock is relieved by the appropriate cost, and the remainder is credited to additional paid-in capital. Charges to earnings associated with the deferred compensation are made on a pro rata basis as the restrictions lapse.

Provisions have been made for income tax timing differences related to the restricted stock plan.

Incentive Compensation Program. Substantially all management personnel (including store managers) participate in an incentive compensation program based upon various measurements of achievement, including sales and earnings performance of the retail stores and operating divisions as well as overall corporate earnings. Compensation paid under the program is in addition to the employees' base salaries. The amounts charged to expense under the program totaled approximately $5,778,000, $5,306,000 and $4,304,000 for the years ended December 28, 1980, December 30, 1979 and December 31, 1978, respectively.

Executive Security Program. In 1980 the company adopted an executive security program for executive officers and other key personnel. The program is comprised of two plans. The executive death benefit plan provides for the payment of benefits over a 120-month period to the participant's designated beneficiaries. The executive post-retirement plan provides for the payment of benefits over a period of 60 months following retirement at age 65. Upon early retirement or termination of employment, reduced benefits are provided. The cost of the program in 1980 was approximately $196,000.

5. Contingencies

The company is defending a lawsuit filed in 1977 by the owner of a franchise granted by the company in 1966 for the Houston-Galveston area. The plaintiff in that suit seeks damages and equitable relief for alleged trademark misuse and antitrust violations. The company is defending various other lawsuits and claims generally incidental to its business. Management believes that the ultimate disposition of these matters will have no significant adverse effect on the company.

6. Quarterly Information (unaudited)

(Thousands of dollars except per share amounts)

	16-week period ended	12-week period ended		
	Dec. 28, 1980	Sept. 7, 1980	June 15, 1980	March 23, 1980
Revenues	$129,579	94,516	89,198	78,489
Costs and expenses	106,143	81,225	72,564	67,121
Earnings before income taxes	23,436	13,291	16,634	11,368
Income taxes	9,502	5,582	6,910	4,639
Net earnings	$ 13,934	7,709	9,724	6,729
Earnings per common and common equivalent share	$ 1.10	.61	.77	.53
	16-week period ended	**12-week period ended**		
	Dec. 30, 1979	Sept. 9, 1979	June 17, 1979	March 25, 1979
Revenues	$109,954	85,063	84,070	69,337
Costs and expenses	89,046	68,896	68,182	57,866
Earnings before income taxes	20,908	16,167	15,888	11,471
Income taxes	8,074	7,212	7,407	5,507
Net earnings	$ 12,834	8,955	8,481	5,964
Earnings per common and common equivalent share	$ 1.02	.71	.67	.47
	17-week period ended	**12-week period ended**		
	Dec. 31, 1978	Sept. 3, 1978	June 11, 1978	March 19, 1978
Revenues	$102,983	75,451	68,901	54,201
Costs and expenses	83,250	62,266	56,447	45,048
Earnings before income taxes	19,733	13,185	12,454	9,153
Income taxes	9,601	6,365	6,035	4,482
Net earnings	$ 10,132	6,820	6,419	4,671
Earnings per common and common equivalent share	$ .80	.54	.51	.37

Net earnings in the fourth quarter of 1979 were favorably affected by approximately $1,000,000 ($.08 per share) as a result of lower Federal income taxes arising from targeted jobs tax credits not anticipated in prior quarters.

7. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

General Background

Financial statements of business enterprises presented in accordance with generally accepted accounting principles have traditionally reported amounts reflecting historical costs and dollars of varying purchasing power and, accordingly, may not adequately measure the effects of inflation on business enterprises. Changing prices, particularly during periods of high inflation rates, can have a significant impact on the individual business enterprise. In recognition of the need to provide readers of financial statements with information to assist them in assessing that impact, the Financial Accounting Standards Board (FASB), in September of 1979, issued Statement No. 33, Financial Reporting and Changing Prices, which requires the disclosure of certain information on the effects of inflation on business enterprises.

The information which follows complies with the requirements of Statement No. 33 and is intended to provide certain measurements of the effects of inflation on the company's operations and financial information about the company, adjusted for the effects of inflation.

Methods of Measuring Effects of Changing Prices

The two different methods prescribed by the FASB for measuring the effects of changing prices were used in calculating the information which follows.

The first method provides data adjusted for "general inflation" using the Consumer Price Index for All Urban Consumers as the broad-based measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars) so that revenues for each year are matched with expenses expressed in corresponding units. In addition, financial data presented for a series of years are made more comparable by reporting the amount for each year in terms of a common unit of measure of purchasing power.

The second method of measurement adjusts for "changes in specific prices". The objective of this method is to reflect the effects of changes in the specific prices (also referred to as "current costs") of the resources actually used in the company's operations, so that measures of these resources and their consumption reflect the current cost of replacing these resources, rather than the historical cost amounts actually expended to acquire them. Adjustments for changes in specific prices of property, plant and equipment were based on external price indices specifically or closely related to the resources being measured, and internally developed estimates.

Both of these methods inherently involve the use of assumptions and approximations, and therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effects of inflation.

Statement of Earnings and Other Changes in Ownership Interest Adjusted for Changing Prices

The amounts reported in the primary financial statements have been adjusted only for depreciation expense in arriving at the net income amounts adjusted for general inflation and changes in specific prices. Revenues and all other operating expenses are considered to reflect the average price levels for the year and accordingly have not been adjusted.

The depreciation adjustments decrease net income under both the constant dollar and current cost presentations, since the company's property, plant and equipment under both methods have been adjusted upwards considerably, reflecting the replacement of old historical dollars with dollars measured by the general inflation methods and the specific price methods. A reduction in pre-tax earnings normally results in a corresponding reduction in the provision for income taxes; however, in accordance with the provisions of Statement No. 33, no adjustments have been made to the respective provisions for income taxes.

There was no adjustment made to cost of sales due to the immaterial changes that would have resulted in both cases because of the small volume of inventories relative to cost of sales.

Besides the impact of inflation on the conventional measures of net income, inflation also affects monetary assets and liabilities, such as cash, receivables and payables. During periods of inflation, monetary assets lose purchasing power since they will buy fewer goods or services as the general level of prices rises. Conversely, holders of monetary liabilities benefit during inflation because cheaper dollars are used to satisfy these obligations in the future. Since the company had net monetary liabilities during the year, a net gain in purchasing power is reflected in the following statement, and should be viewed as part of the overall impact of inflation on operations. Since the interest rate charged by lenders is intended, in part, to compensate them for lost purchasing power during inflation, historical dollar interest expense should theoretically be reduced by the purchasing power gain from holding net monetary liabilities. However, the FASB requires that this gain be shown separately from adjusted net income in the following statement.

Five-year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

The five-year comparison shows the effects of adjusting historical revenues to dollar amounts expressed in terms of average 1980 dollars, as measured by the Consumer Price Index. Revenues for 1976-1979 as adjusted are higher, and the increase in revenues from each of those years to 1980 is correspondingly less. The market price per share amounts show a similar trend of less growth from each of the earlier years to 1980.

The value of net assets stated on a constant dollar and current cost basis is higher than the historical dollar amount due primarily to the inflationary impact on property, plant and equipment values.

Statement of Earnings and Other Changes in Ownership Interest
Adjusted for Changing Prices

Year Ended December 28, 1980
(Thousands of dollars)

		Adjusted For	
	As Reported	General Inflation	Specific Prices (Current Costs)
Total revenues	$391,782	391,782	391,782
Cost of goods sold	163,011	163,011	163,011
Depreciation and amortization expense	11,998	15,884	17,077
Other selling, general and administrative expenses	150,467	150,467	150,467
Interest expense	1,577	1,577	1,577
Income taxes	26,633	26,633	26,633
	353,686	357,572	358,765
Net Earnings	$ 38,096	34,210	33,017
Gain from decline in purchasing power of net amounts owed		$ 1,882	1,882
Increase in specific prices of property, plant and equipment held during the year*			21,976
Effect of increase in general price level			21,764
Amount of increase in specific prices over increase in general price level			$ 212

*At December 28, 1980, current cost of property, plant and equipment, net of accumulated depreciation, was $206,017,000.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices
(Thousands of average 1980 dollars except per share amounts)

	Years Ended				
	12/26/76	12/25/77	12/31/78	12/30/79	12/28/80
Total Revenues:					
Historical	$174,124	227,483	301,536	348,424	391,782
Average 1980 dollars	252,046	309,326	380,855	395,543	391,782
Historical cost information adjusted for general inflation:					
Net earnings				37,693	34,210
Earnings per common and common equivalent share				2.98	2.71
Net assets at year end				183,365	209,109
Historical cost information adjusted for specific prices:					
Net earnings				36,654	33,017
Earnings per common and common equivalent share				2.90	2.61
Amount of increase in the specific prices over (under) increase in general price level				(6,916)	212
Net assets at year end				170,557	193,400
Other information:					
Gain from decline in purchasing power of net amounts owed				2,673	1,882
Cash dividends declared per common share	$ .29	.31*	.50	.64	.69
Market price per common share at year end	$ 15.46	22.96	27.37	26.03	24.71
Average consumer price index	170.5	181.5	195.4	217.4	246.8

*Includes three quarterly dividends. The fourth quarter dividend was declared January 1, 1978. If each of the quarterly dividends had been declared during the year ended December 25, 1977, as was the practice in prior years, dividends for fiscal 1977, as adjusted, would aggregate $.41 per share instead of $.31 per share.

Accountants' Report

The Board of Directors and Shareholders
Church's Fried Chicken, Inc.:

We have examined the consolidated balance sheets of Church's Fried Chicken, Inc. and subsidiaries as of December 28, 1980, December 30, 1979 and December 31, 1978, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Church's Fried Chicken, Inc. and subsidiaries at December 28, 1980, December 30, 1979 and December 31, 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

San Antonio, Texas
February 9, 1981

Corporate Information

Officers/Directors

Roger A. Harvin
Chairman of the Board of Directors, President and Chief Executive Officer

James S. Parker
Executive Vice President-Operations

William J. Storm
Senior Vice President-Finance

Robert P. Gottlich
Senior Vice President, Division Manager

Adrian E. Budlong, Jr.
Group Vice President-Licensing and Marketing

Robert E. Hilgenfeld
Group Vice President-Purchasing

Larry M. Killpack
Group Vice President-Development

Sandra G. Paine
Group Vice President-Personnel and Training

Samuel B. Alford
Vice President-Corporate Services

Ed C. Brooks
Vice President-Property Management

Dorian W. Gibbs
Vice President-Corporate Planning

Harold R. Haynes
Vice President, Division Manager

James R. Hale
Secretary
Member of law firm of Cox & Smith Incorporated

*Sangwoo Ahn**
Director
Managing Director of Warburg Paribas Becker, Inc., New York (investment banking)

*Ernest Green**
Director
Vice President, All Sports Management, Cleveland, and Consultant to International Management Group, Cleveland, Ohio
(management services)

*Alex H. Halff**
Director
Chairman of the Board
Alamo Title Company
San Antonio, Texas
(title insurance)

*Niles H. Hammink**
Director
Consultant to
The Scott & Fetzer Company
Lakewood, Ohio
(diversified manufacturing)

*R.J. Sperry**
Director
Supervisor of Southwestern Division (Dallas, Texas) of Kirby Division (home care products) of The Scott & Fetzer Company

*Audit Committee

Directory

Church's Fried Chicken, Inc.
National Headquarters
355A Spencer Lane
P.O. Box BH001
San Antonio, Texas 78284
(512) 735-9392

Accountants
Peat, Marwick, Mitchell & Co.
National Bank of Commerce Building
San Antonio, Texas

Attorneys
Cox & Smith Incorporated
National Bank of Commerce Building
San Antonio, Texas

Registrar and Transfer Agent
Chemical Bank
New York, New York

10-K Availability
The Company will furnish to any shareholder without charge a copy of the company's annual report filed with the Securities and Exchange Commission on Form 10-K for the 1980 fiscal year (including the financial statements and schedules thereto) upon written request from the shareholder addressed to:
William J. Storm
Senior Vice President-Finance
Church's Fried Chicken Inc.
P.O. Box BH001
San Antonio, Texas 78284

STOCK PRICES AND DIVIDENDS

The company's common stock is listed on the New York Stock Exchange and traded under the symbol CHU. The following table shows, for the last two fiscal years, the cash dividends per share paid on the common stock and the high and low sales prices per share of the common stock on the New York Stock Exchange (composite transactions).

Fiscal Quarter Ended	Stock Prices		Quarterly
	High	Low	Cash Dividend
March 25, 1979	$27.00	$21.13	$.11
June 17, 1979	26.75	22.75	.15
September 9, 1979	28.88	22.38	.15
December 30, 1979	28.13	21.75	.15
March 23, 1980	26.88	19.50	.15
June 15, 1980	24.25	18.38	.18
September 7, 1980	27.75	21.13	.18
December 28, 1980	29.75	23.25	.18

There were approximately 4,100 holders of the company's common stock of record as of December 6, 1980. The company's Bank Revolving Credit Agreement, which expires June 1, 1982, limits the payment of cash dividends and purchase of its common stock by the company to $4,338,000 at December 28, 1980, and 35% of subsequent net earnings.

Church's Fried Chicken, Inc.
P.O. Box BH001
San Antonio, TX 78284